

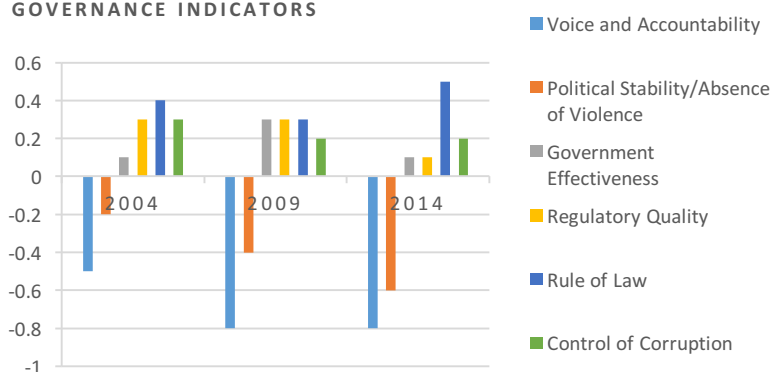
Development of Small Enterprise Lending at Vitas Jordan, Jordan

1. DEVELOPMENT RELEVANCE

Country context: Despite challenges, Jordan's economic development is gradually advancing. The country is relatively open to global investment and trade. The economy also performed well compared with other Middle East economies during the 2010-2015 period (Figure 2ⁱ) and is expected to outperform the region going forward. Jordan is also a relatively wealthy economy among MENA countries. Its GDP per capita is about half that of Lebanon, on par with Iraq but much larger than neighbouring Egypt or Sudanⁱⁱ. Nevertheless, Jordan faces many challenges owing to regional instability, high unemployment, a dependency on grants and remittances from Gulf economies, and continued pressure on natural resourcesⁱⁱⁱ (see also governance indicators chart^{iv}).

Population and economic indicators ^v	
Population (2014)	6,607,000
GDP growth (2014)	3.1 %
Inflation (2014)	2.8 %
Economic Freedom Index (rank among 185 countries)	38
Poverty indicators	
GDP per capita (current USD) (2014)	5,422.6
Gini index (0= equality 100= inequality) (2014)	33.7
International poverty (at USD 1.25 day) headcount ratio, % of population (2010)	0.1
National poverty headcount ratio, % of population (2010)	14.4
Rural poverty headcount ratio, % of rural population (2010)	16.8

GOVERNANCE INDICATORS



Financial sector context: Jordan's microfinance industry has taken steps towards achieving better financial inclusion. Jordan had a registered gross loan portfolio (GLP) of USD 137,345,362 in 2014, ranking it the second largest market behind Morocco among MENA countries. Over the past five years, Jordan has kept its GLP above the average of its MENA neighbours (Figure 1^{iv}). This is driven by two factors: a generally higher microfinance penetration rate, and comparatively strong economic performance.

Taking GLP as a percentage of GDP as an indicator of market penetration, Jordan shows

a consistently higher figure than the region as a whole (0.7% in Jordan versus 0.2% in other MENA countries as of 2012¹). The ratio of microfinance borrowers to all borrowers from financial institutions is one of the highest in the region, highlighting the importance of the sector^v. However, loans per borrower declined from a peak of 1.12 in 2012 to 1.07 in 2014, showing stabilisation in multiple borrowing. The Jordanian government is promoting the growth of MFIs in order to increase income and encourage job creation.

Partner financial institution: A leading MFI, Vitas Jordan, aims to develop the financial capacity of small enterprises in Jordan. Although it is a commercial entity, it is strongly committed to its founding mission to provide access to financial services, helping people to become full social and economic participants in their communities. In 2013, Vitas Jordan became the trading name for MEMCC (Middle East Micro Credit Company), the most profitable development finance institution and one of the largest MFIs in Jordan. It has grown its overall portfolio from USD 3.8 million in 2003 to USD 41.3 million in June 2015 and has succeeded in gaining a market share of 12%^{vi}, ranking second among the country's eight biggest and most active MFIs^{vii}. Over the 2003–2014 period, Vitas displayed an asset CAGR (compound annual growth rate) of 21.9%, which is twice the 10% CARG reported by the banking industry as a whole in Jordan^{viii}. Moreover, Vitas's loan portfolio CAGR was 35.9% for the 2010–2013 period, compared with 24.2% for the broader microfinance industry^{ix}. The company has built up a base of approximately 27,000 clients and boasts an excellent loan book with portfolio at risk (PAR) of less than 1%.

¹ As of 2012, Mix Market data is of better quality. The same picture continues through into 2013 and 2014, for which we report 0.4% vs 0.1% penetration rate for Jordan vs MENA respectively.

MEMCC is a non-profit company that, for regulatory reasons, could not be converted into a for-profit entity. In 2013, MEMCC decided to establish a new for-profit company, 'Partners for Finance'. Both MEMCC and Partners for Finance have operated under the same trading name – Vitas Jordan – since 2013. Small enterprise (SE) lending is run through Partners for Finance, and the financial analysis in the remainder this report reflects this part of their business alone.

Trading as Vitas Jordan, Partners for Finance increased its gross loan portfolio by 71% between September 2014 and June 2015. This was achieved owing to 90% growth in the number of clients⁴. On top of normal organic expansion, this increase in business volume is mainly due to the transfer of operations from MEMCC to Partners for Finance. Loan quality has remained exceptionally strong (PAR>30 of 0.07% for Q3 2015) despite significant growth in the period under review. The transfer of business led to greater efficiency in terms of loans per loan officer between the two periods: from 74 loans in September 2014 to 127 in June 2015. This trend is also reflected in the overall cost of administering the portfolio: the personnel expense to loan portfolio ratio fell from 4.12% in September 2014 to 3.02% in June 2015. Improved performance is also evident in profit margins, which increased to 69.16% as at June 2015 compared with 58.42% in September 2014. The change in these financial indicators, as well as other metrics (e.g. ROA, ROE) must be seen in the context of a company in transition from non-profit to for-profit.

Figure 3. Partners for Finance, trading as Vitas Jordan Financial indicators

	FYE Sept, 2014	Q3 Jun, 2015
Gross loan portfolio, USD	12,563,839	21,551,946
Total clients	5,637	10,687
PAR>30	0.03%	0.07%
Loans per loan officer ²	74	127
Personnel expense/loan portfolio	4.12 %	3.02%
Profit margin ³	58.42%	69.16%
ROA	0.65%	3.64%
ROE	2.99%	15.01%

Vitas Jordan has representations in all significant urban areas, and 17 branches spread across the country. The six branches in the south focus on microfinance lending (marked in orange on the map). The eleven branches concentrated in the north (marked in blue on the map) have additional authority to lend to SME/SEs. In practice, however, SE product marketing is currently the task of the SE loan officers based at head office.

Figure 1. MFI Sector, Gross Loan Portfolio

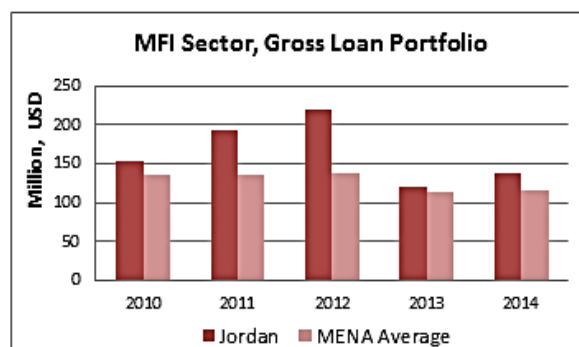
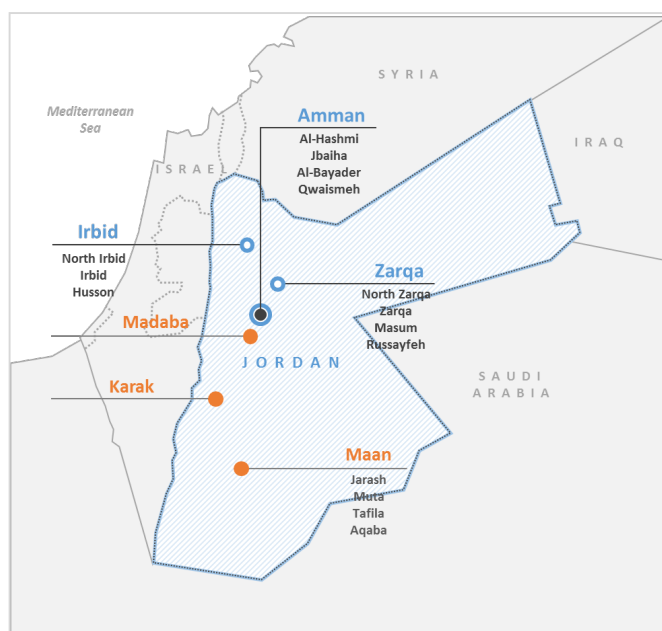
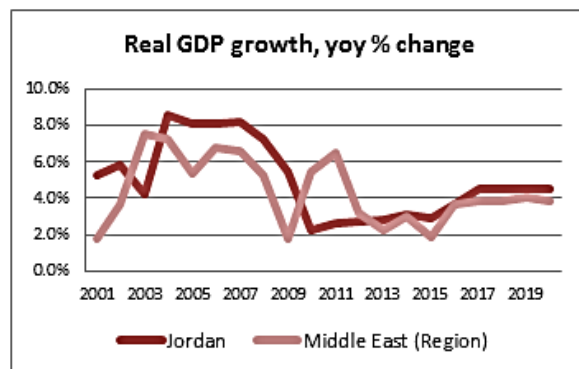


Figure 2. Real GDP growth, yoy % change



² Calculated as total number of loans outstanding to total number of loan officers at the end of reporting period

³ Calculated as net operating income to financial revenue

⁴ Control over loan officers' efforts in terms of attracting new clients and generating new business is being brought under the Al Ruwad system. This system is designed to create a highly structured approach to business development through the application of clear targets allied with salary incentives for loan officers.

2. INTERVENTION APPROACH

Capacity-building needs: The following challenges and capacity-building solutions were identified.

Challenges	Solutions
Lack of loan products tailored to the needs of the target clients: Jordanian micro enterprises are served by a growing micro lending sector while large companies can normally access commercial bank financing. Meanwhile, small enterprises, the 'missing middle', in need of loans of USD 7,000 – USD 30,000 fall in the gap between these two extremes and face difficulties in accessing finance. At the outset of the project, Vitas itself had only targeted micro loans up to USD 7,000 and SME clients in the USD 30,000 – USD 50,000 bracket, leaving the segment in between untapped.	The purpose of the project was to start serving the 'missing middle'. Loans of USD 7,000 – USD 30,000 were provided to both formal and informal businesses by revising loan products to meet the missing middle's needs and focusing business appraisals on future cashflow projections.
Unsound credit appraisal tools	A review of and improvement of Vitas Jordan's credit appraisal methodology allowed for a deeper analysis of loan applications and also mitigated credit risk.
Limited training for credit advisors and managers on cashflow-based lending	In addition to developing and revising credit procedures, training for credit advisors and managers took place to ensure that the procedures were implemented correctly.

Main activity areas and outputs: A capacity-building grant from the SCBF combined with the company's own contribution to enable Vitas Jordan to develop new strategies to reach out to the unserved SE segment. The project implemented by the BFC team of experts contributed to more targeted lending which catered to the needs of small businesses. During the 17 months of project implementation, six of the seven main activities and outputs were accomplished successfully:

1. Conduct market research⁵ to identify and confirm the financing needs of the small business segment;
2. Perform an institutional assessment to review the products and methodologies in place at Vitas Jordan and identify opportunities for innovation;
3. Develop two lending products for the SE segment⁶ (working capital loan and fixed asset loan for SEs) and the corresponding product methodology, suiting the USD 7,000 – USD 30,000 loan segment; launch of SE loan products in pilot branches
4. Align Vitas Jordan staff with the new strategic direction and target market, training them on the new products and loan methodology. One-day seminar on credit, sales and marketing delivered by BFC international experts; 10 Vitas employees trained overall
5. Establish the now-operational SE Unit (consisting of an SE manager and three loan officers). The lending process was monitored by a BFC local expert throughout the entire implementation period. Overall, the BFC expert provided 61 training days of coaching and mentoring;
6. Evaluate pilot results according to pre-determined key performance indicators.



Vitas SE unit (from left to right): Mr. Rami Abu Rass, SE loan officer; Mr. Dia Qutaish, SE manager; Mr. Firas Musharbash, SE loan officer

There was a change in approach with regard to one of the planned activities: the localisation of SE lending at Vitas branches. The process has been deferred pending a review of lending experience. Delegating credit authority to branches would mean not being fully in control of the loan issuance process and would inevitably raise loan quality issues. Based on this, the decision was taken to postpone the original plan⁷. In addition, the administrative costs associated with decentralisation are considered prohibitive at current levels of business, but will be kept under review in the light of future business expansion.

⁵ Bayan Advisers, a local company, was engaged to perform the market research

⁶ Working capital loan for SEs, fixed asset loan for SEs

⁷ As recommended by a BFC team of experts in the SE Marketing Plan/Business Development Plan (30 September 2014).

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

There have been 88 SE loans with an overall value of USD 1.54 million⁸ granted to date⁹. Female borrowers represent 12.5% of total SE borrowers, accounting for a total of USD 140,735 in loans disbursed by August 2015^x. As Vitas Jordan is focused on urban areas, there are no active borrowers in rural areas. A diverse range of businesses is included in the new SE portfolio, including shops, small manufacturers and restaurants. Repeat business has already been secured. The high level of satisfaction with SE loan products is evidenced by business growth and increased profitability among SE clients¹⁰.

The current constraints mentioned by clients refer to interest rates, loan terms and personal guarantees. These have led to some hesitation in taking another loan. However, from the management's perspective, the SE lending process has evolved well and there is some reluctance to make significant concessions by addressing the aforementioned constraints at this time.

The following short profiles provide an overview of the client base:

Cafeteria owner Amjad Alkhateb, who founded his business in 2007, is satisfied with the SE loan product. He saw his business grow and expand with a new branch opening after he took out a USD 14,000 loan for 18 months in January 2015.

For **Al Nabani**, a producer of sewing machines founded in 1990, taking out an SE loan translated into business growth. The funds allowed new machines to be purchased to produce decorations and improve the offering to clients.

Abdulla Yasen's company, trading as Arabella, is a flower and gift shop in eastern Amman that also provides wedding planning services. The company has paid off a working capital loan, drawn in November 2014, and has since taken out a second, larger loan.

(from left to right):

Mr. William Ward, BFC international expert,
Mr. Rami Abu Rass, Vitas SE credit officer,
Mr. Majdi Abu Arja, BFC local expert with the
Arabella business manager in the *Arabella* shop.



The **Rawaj Company**, located in north-eastern Amman, produces paper for hygienic uses such as toilet tissue and paper towels. The business expanded its output by buying new machinery. The increase in production was made possible by an initial SE loan of USD 28,000 with a term of 18 months in February 2015, and further loans ranging from USD 7,000 to USD 11,000 thereafter.

The Rawaj Company. Left: machinery to produce paper towels; right: paper towels.

⁸ Considered a success, as the target to be achieved by November 2015 was USD 1.8 million (CHF 1.35 million). Exchange rate CHF/USD: 1.0381 as at 30 August 2015. Source: www.oanda.com

⁹ Data on change in quality of life, change in client business performance and change in financial literacy level is not available.

¹⁰ Internal review among Vitas SE clients, July 2015

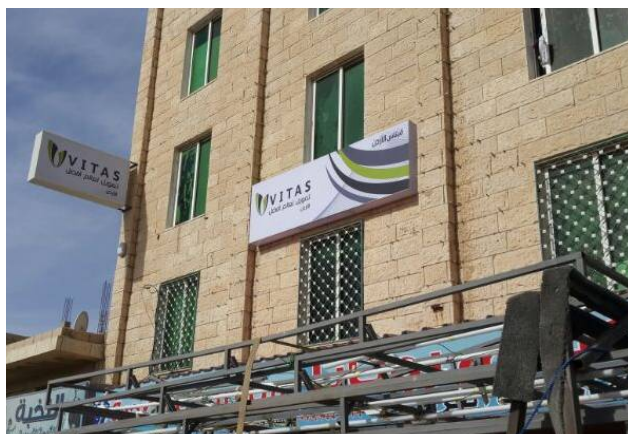
Hussein Hawamde Construction took out a USD 14,000 loan with an 18-month term in December 2014 and used the funds to purchase heavy machinery. Although the company reported some growth and increased profitability, it found the loan term too short and had concerns about the need to have a guarantee. With these concerns, the client was dissatisfied with the product overall, calling their future relationship with Vitas in question.

Partner financial institution level

A skilled SE team with an improved credit appraisal system is in place. The figure below shows the main results achieved. The targets were set in the SE Marketing Plan/Business Development Plan (30 September 2014), which was developed by the BCF expert team.

	ACHIEVED	PARTIALLY ACHIEVED
Target	Result	
Efficiency		
Total outstanding SE loan balance of USD 1.8 million ¹¹ by November 2015	<ul style="list-style-type: none">Outcome achieved, with SE loans with an overall value of USD 1.54 million issued as at August 2015	
230 outstanding loans by November 2015	<ul style="list-style-type: none">85 outstanding loans as at August 201550% of the loan number target likely to be achieved owing to difficulty and delays in recruiting and retaining the required staff	
60 SE loans per SE loan officer by November 2015	<ul style="list-style-type: none">50% of the target achieved according to August 2015 data (30 SE loans per SE loan officer)	
Portfolio quality		
PAR 30<2%	<ul style="list-style-type: none">Target achieved: FYE 2014 (September 2014): PAR30 = 0.03% 3Q 2015 (June 2015): PAR30 = 0.07%30% rejection rate for loan applications indicates strict credit criteria and stringent application by Vitas	
Restructured loan ratio < 1%	<ul style="list-style-type: none">Target achieved: 0.00% write-off rate reported for 3Q 2015	
Scorecard and credit review systems	<ul style="list-style-type: none">Developed by the BFC team of expertsImplemented by SE team in the credit processResulted in a rigorous approach to credit assessment – essential for the development strategy	
Business development		
130 new SE clients to be recruited by November 2015	<ul style="list-style-type: none">60% of the target achieved (76 new SE clients recruited as at August 2015)	
Branch-based loan officers to refer clients to SE loan officers and, in turn, be rewarded with a ‘finder’s fee’	<ul style="list-style-type: none">Concept of ‘finder’s fee’ proved challenging to implementDifficult to negotiate a reward structure capable of encouraging branch managers to devote sufficient effort to marketing SE loans	

¹¹ Exchange rate CHF/USD: 1.0381, as at 30 August 2015. Source: www.oanda.com



Tafila Branch. Daily meeting between branch manager and loan officers



Aqaba branch. The team is celebrating a successful end of month.

4. RECOMMENDATIONS FOR OTHER SIMILAR INTERVENTIONS

- Prioritise training.** The provision of training was an essential element of this project, yet Vitas found it difficult to release staff except for short courses. This is one reason that the BFC expert team favoured the mentoring approach rather than formal classroom training. Indeed, staff members themselves were reluctant to allocate time for training as it would intrude on their sales time and thereby affect their monthly commission in addition to their salaries if it meant not meeting monthly targets. Some form of compensation or encouragement by Vitas is required in these circumstances.
- Improve remuneration and incentive packages.** It was noted that Vitas has great difficulty recruiting and retaining staff of sufficient calibre. Microfinance is not considered an attractive career in Jordan so when positions arise, it is difficult to identify suitable candidates. Fortunately, Vitas was able to source some good new employees. However, for future growth, Vitas needs to review its overall remuneration packages in relation to the market in order to attract and retain new talent.
- Differentiate between micro and SE business approaches.** Vitas is essentially an MFI attempting to break into the SE/SME market. Microfinance is a high-volume market requiring certain skillsets, not all aspects of which transfer to the more client relationship driven SE/SME lending. To strengthen its practice, Vitas might consider devoting greater attention to the preparation of SE loan officers and sustain their efforts in building client relationships and understanding client needs.

- **Review international versus local consultancy inputs.** A different balance between local and international inputs could have had a better impact. The local expert did an excellent job but too much was expected of him in ensuring that local staff were coached and trained. The project could have benefited from more international expert days to support the local expert and provide a better balance of inputs.

ⁱ Data from IMF data mapper

ⁱⁱ World Bank data 2014: Jordan USD 5,423; Lebanon USD 10,058; Iraq USD 6,334; Egypt USD 3,199; Sudan USD 1,876

ⁱⁱⁱ <http://www.worldbank.org/en/country/jordan/overview>

^{iv} Source: <http://info.worldbank.org/governance/wqi/index.aspx#reports>

^v Source of Population, Economic and Poverty Indicators: <http://data.worldbank.org/indicator> ; except for Economic Freedom index: <http://www.heritage.org/index/country/jordan>

^{vi} Mix Market data

^{vii} MIMOSA rating, relies on data as at 2011

^{viii} Jordan Microfinance Market Study, Ministry of Planning and International Cooperation of Jordan, May 2012, page 9
<http://www.mop.gov.jo/echobusv3.0/SystemAssets/24092014/Jordan%20Microfinance%20Market%20Study%202012.pdf>

^{ix} Presented in descending order of market share: Micro Fund for Women 13%, Vitas Jordan 12%, 'Tamweelcom' Jordan Micro Credit Company 12%, 'Al Watani' National Microfinance Bank 10%, Ahli Micro Finance Company 4%, UNRWA microfinance department 3%, FINCA Jordan 3%, and Al Ameen for Microfinance 1%.

<http://www.mop.gov.jo/echobusv3.0/SystemAssets/24092014/Jordan%20Microfinance%20Market%20Study%202012.pdf>

^x Central Bank of Jordan, total assets of licensed banks. GLP is not reported by the Central Bank of Jordan.

^{xi} Tanmeyah Annual Report 2013, only data for 2010-2013 is consistently available

http://www.mixmarket.org/sites/default/files/tanmeyah_annual_report_2013_english.pdf

^{xii} As reported by Vitas Jordan for the end of August 2015